

**INTERNAL AUDIT SERVICE
INTERIM REPORT 2006/07**

(Report by the Internal Audit Manager)

1. INTRODUCTION

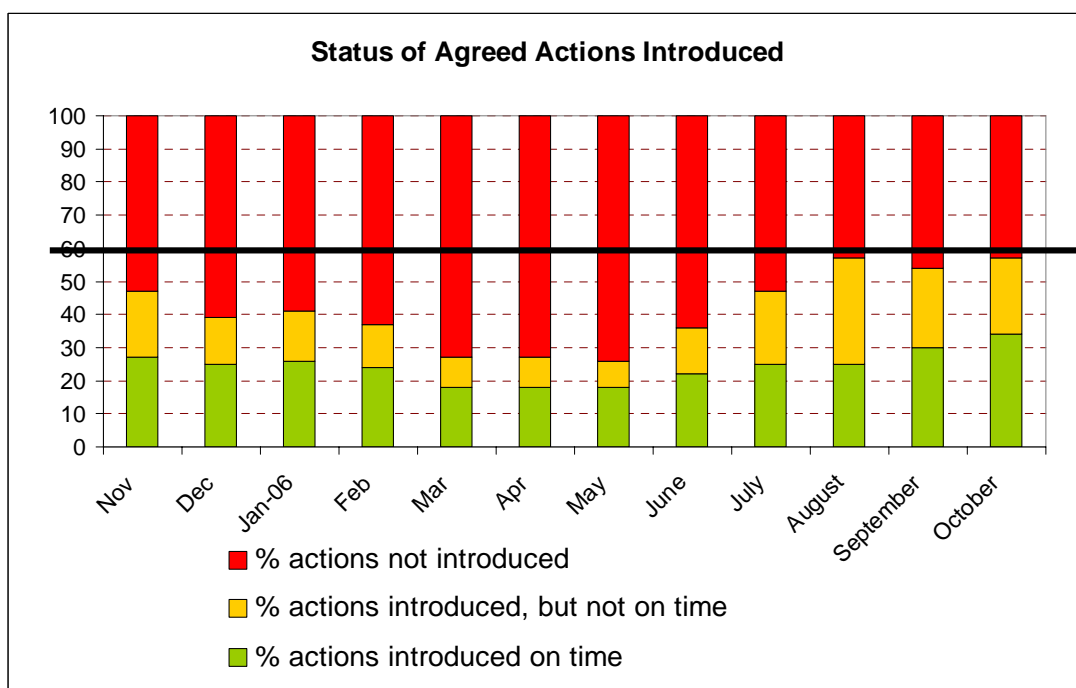
- 1.1 Internal Audit is required by its terms of reference to report twice a year to the Panel. This interim report deals with progress towards the achievement of the 2006/07 annual audit plan and associated performance and management issues.

2. DELIVERY OF THE 2006/07 AUDIT PLAN

- 2.1 As at the 31 October, 15 of the 37 audits planned for 2006/07 had been completed or issued in draft. A further 4 were substantially underway. The level of assurance given for each of the reports completed or issued in draft is shown in the table at Appendix A.
- 2.2 The Panel should note the assurance definitions given. Substantial assurance is not always desirable because it may indicate excessive control where the area is relatively low risk. It should be recognised that in all systems there is a trade-off between efficiency and risk.
- 2.3 Electronic copies of all completed reports are available to Members on the Internal Audit intranet home page, via the 'Search for Audit Reports (Secure)' link.
- 2.4 Based on the work completed to date it is expected that the 2006/07 audit plan will be completed.

3. IMPLEMENTATION OF AGREED ACTIONS

- 3.1 An on-line database has been established which holds details of all agreed actions. Managers responsible for introducing the actions are required to update the database with the action they have taken and the date that the action was introduced. Each Director, Head of Service and Activity Manager is able to access the database and obtain real-time reports that list by date or status, the actions that they have agreed to introduce.
- 3.2 Progress on the implementation of agreed actions was reported to the Panel in September 2006. It showed that at August, 25% of actions had been introduced in time against the target of 60%. The table below, which shows the position by month up to October, shows that an improvement has been made over the last two months, with the current figure standing at 35%.



3.4 It is recognised that there will be occasions where service issues arise after the dates for introducing actions have been agreed, that quite properly take priority over the introduction of the action.

3.5 Whilst the percentage achieved on time is increasing, it is disappointing that, even allowing for those actions introduced late, the scorecard target has not been reached. The table below shows the positions by Directorate.

@ 31 October 2006	Directorate			TOTAL
	Central Services	Commerce & Technology	Operational Services	
No. of Actions	67	87	34	188
Introduced	29	47	31	107
% age introduced	43%	54%	91%	57%
Introduced on time	17	23	26	66
% age on time	25%	26%	76%	35%
	Balanced Scorecard Target:			60%

Of the 188 actions that were required to be introduced in the period, 21 were 'red'. 16 of these actions have been introduced. Appendix B provides brief details of the 5 actions that remain outstanding.

3.6 A sample of actions that have been reported as being completed are checked to see that the action introduced sufficiently addresses the risk that has been identified. In respect of those actions introduced up to 30 September 2006, it was found that the majority of the actions taken were appropriate. Occasionally the action taken does not fully deal with the risk identified.

4. OPINION ON THE INTERNAL CONTROL ENVIRONMENT

4.1 The opinion provided as at 31 August 2006 was that the internal control environment and systems of internal control could provide limited assurance over the effective exercise of the Council's functions.

4.2 Improvement in this level of assurance will depend in part on the further improvement in the speed by which agreed actions are implemented and that the audits in the remainder of the year being generally satisfactory.

5. INTERNAL AUDIT'S PERFORMANCE

5.1 Information in respect of the performance of the internal audit service is attached at Appendix C.

6. RECOMMENDATION

It is recommended that:

- the interim report be noted
- Directors and Heads of Service are reminded of the importance of introducing actions within the agreed timescale.

BACKGROUND INFORMATION

Internal audit reports issued during 2006/07
Audit database of actions
Audit plan 2006/07

Contact Officer: David Harwood, Audit Manager 📞 **01480 388115**

Audit Reports issued April – October 2006

Audit Area	Level of Assurance				Agreed Action Status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Mgr ¹
Key Financial Systems							
Loans & Investments	✓✓				---	---	
Housing Benefits	✓✓				---	---	
Payroll	✓✓					3	
Other systems reviews							
Mortgages	✓✓				---	---	
Homelessness	✓✓					3	
Licensing		✓				8	
Disposal of electronic & paper information		✓				4	
Insurance		✓				3	
Gifts & Hospitality		✓				3	
Section 106 Agreements		✓				3	
Implementation of Management/Member decisions ²		✓				3	
Leisure Centres – Bars & Catering			x		4	7	
Markets			x		2	5	
Performance Indicators			x		1	1	
Computer Post Implementation Review			x		1	1	
Computer Audit							
Data Consistency <i>audit incl. in the 2005/06 plan</i>				xx	4	5	

¹ There are occasions when a risk identified during an audit is acknowledged and accepted by a Manager and they decide that no further action is agreed. The right hand column of this table records all those instances.

² = draft report issued as at 31 October 2006

Internal Audit Reporting Process

The audit reporting process has the following five stages.

- 1 Audit completed & draft report prepared.
- 2 The draft report may contain suggested actions to mitigate risks. Actions are placed into a 'red' or 'amber' category.

Red these are actions that must be implemented as the current exposure to risk is unacceptably high, indicating a major control weakness

Amber these are actions that managers have agreed to introduce, as the current risk exposure is high. Controls weaknesses have been identified that have the potential to compromise internal control, operational effectiveness or service delivery.

- 3 Assurance opinion reached based on action categories and the number of suggested actions proposed.

<i>Substantial Assurance</i>	✓✓	<i>There are no weaknesses in the level of internal control for managing the material inherent risks within the system. Testing shows that controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically apart from any excessive controls which are identified in the report.</i>
<i>Adequate Assurance</i>	✓	<i>There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems evaluation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.</i>
<i>Limited Assurance</i>	✗	<i>There are weaknesses in the level of internal control for managing the material inherent risks within the system. Too many control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.</i>
<i>Little Assurance</i>	✗✗	<i>There are major, fundamental weaknesses in the level of control for managing the material inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.</i>

- 4 Final report prepared. Suggested actions changed to agreed actions. Some current risks may be accepted with the agreement of the relevant Director. Report issued.
- 5 Head of Service accepts report. Audit closed. Report issued to Director & S151 Officer.

'Red' Actions Outstanding

Audit	Head of Service	Action Agreed	Agreed Implementation Date	Current Position
Performance Indicators 2006/07	Head of Policy	Written procedure notes documenting how each PI result is produced will be prepared.	31/08/2006	
Disaster Recovery & Business Continuity Planning	Customer First Programme Manager & Head of Information Management Division	IT systems will be prioritised and the disaster recovery arrangements with the contractor, ICM, will be reviewed.	30/09/2006	Prioritising IT systems in order of criticality for their recovery needs to be completed before progress can be made on this action.
Customer First Application Review	Customer First Programme Manager & Head of Information Management Division	The Council will liaise with the County Council regarding disaster recovery and business continuity arrangements for services provided from Speake House.	30/09/2006	Response is awaited from the County Council.
Leisure Centres: Bars & Catering	Head of Administration	Independent checks will be completed monthly on the levels of overs & unders and refunds which have been made on the bar tills.	31/08/2006	
HR & Payroll: Starters & Leavers	Head of Personnel	Mechanisms will be established for the periodic confirmation of the payroll master file.	31/05/2006	Work is still required to complete 'Post to Post' links within ResourceLink to allow reports to be produced.

Internal Audit Performance

1. Introduction

1.1 Internal audit have prepared a set of performance measures that link into the Council's corporate performance management system. The measures which relate to the service's performance are listed below:

- External audit view of internal audit
- % of customers rating service quality as good or better.
- % of agreed actions implemented on time
- % of service delivery targets achieved.

2. External audit view of internal audit

Target: Adequate or better
Achieved: Satisfied

2.1 The external auditor's annual audit and inspection letter of April 2006 contained the following remarks;

"The Audit Commission continued to be satisfied that the quality of the work done by Internal Audit meets the standards set by the CIPFA Code of Practice and obtained assurance from its work whenever possible to complement and limit their own coverage. In particular, the external audit relied on Internal Audit's documentation and review of key controls of the main financial systems. Their work in this area has increased significantly in the current year due to the need to comply with new international auditing standards."

2.2 The external auditor's Audit of Accounts 2005/06 report to those charged with governance contains the following remarks;

"We aim to place reliance on the work of internal audit in accordance with the 'managed' audit approach. In 2005/06 we have been able to place reliance on the work of internal audit in respect of the key accounting systems."

3. Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.
Achieved: 12 months to October 2006 - 93%

3.1 At the conclusion of all audits, managers are requested to complete an end of audit survey form and give an opinion on the value of the audit. The options available are – excellent, very good, good, fair and poor. Target information is calculated on a rolling twelve month basis rather than by financial year. The figure is based on 30 returns.

3.2 The Head of Financial Services annual customer satisfaction survey conducted with senior managers has also shown an increase for the third year running in the percentage who consider the internal audit service to be good or better

- April 2004 81%
- April 2005 90%
- April 2006 96%






4. Service delivery targets

4.1 There are four elements to this target which all relate to the progress of individual audits and the reporting process:

- Complete audit fieldwork by the date stated on the audit brief
- Issue draft audit reports within 15 working days of completing fieldwork
- Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report
- Issue final audit report within 5 working days of receiving full response

4.2 Performance indicators are prepared monthly in respect of each target and circulated to internal audit staff. The targets are also reflected in staffs key performance development targets within the annual appraisal process. Achievement of the targets requires internal audit staff to develop and maintain good working partnerships and the customer's co-operation throughout the period of the audit.

4.3 This information was last presented to the Panel in respect of performance to August 2006. The table below shows the targets and the change in performance between August and October 2006. The reasons for the fall in performance are known and relate to one particular audit.

	Target	Performance as at:	
		August 2006	October 2006
Complete audit fieldwork by the date stated on the audit brief	75%	83%	88% 
Issue draft audit reports within 15 working days of completing fieldwork	90%	93%	89% 
Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report	75%	95%	92% 
Issue final audit report within 5 working days of receiving full response	90%	95%	100% 
Overall	82%	91%	92% 

5. SERVICE IMPROVEMENTS

5.1 Service developments set out in the previous report that have already been completed are:

- A review of the audit reporting process. Changes have been made to the report so that it now includes a brief statement on the overall scope of the review and details of particularly good practice that have been found. The format of the report has also been amended.
- A review of the internal audit training and development scheme. The scheme identifies specialist skills and competencies expected of internal audit staff. It has been fundamentally reviewed to ensure that it reflects the requirements of both risk based auditing and risk management.